

~~SECRET~~

COPY NO.

2

FAR EAST/PACIFIC BRANCH  
OFFICE OF REPORTS AND ESTIMATES  
CENTRAL INTELLIGENCE AGENCY

WORKING PAPER

NOTICE: This document is a working paper, NOT an official CIA issuance, and has not necessarily been coordinated with other ORE producing components. It represents current thinking by one group of specialists in CIA, and is designed for use by others engaged on similar or overlapping studies. The opinions expressed herein may be revised before final and official publication. It is intended solely for the information of the addressee and not for further dissemination.

25X1A

COPY FOR:

DOCUMENT NO. 14  
NO CHANGE IN CLASS.   
 DECLASSIFIED  
CLASS. CHANGED TO: TS S C  
NEXT REVIEW DATE: \_\_\_\_\_  
AUTH: HR 70-2  
DATE 12/16/79 REVIEWER: 372044

~~SECRET~~

~~SECRET~~

OFFICE OF REPORTS AND ESTIMATES, CIA  
FAR EAST/PACIFIC BRANCH

INTELLIGENCE HIGHLIGHTS NO. 47  
6 April - 12 April 1949

SECTION I. SUMMARY OF FAR EAST TRENDS AND DEVELOPMENTS

Establishment of a new ECAFE committee, which may be able to work with less intrusion of political issues, was the major accomplishment of the recent ECAFE conference in Bangkok (p. 2).

Completion of a trade agreement between Japan and the Republic of Korea appears to have been the signal for an end to previous barter arrangements between the Republic and the northern Korean puppet state (p. 2).

Dissident elements in northern Korea are reported for the first time to be organizing in the urban areas (p. 3).

Regardless of the success or failure of current peace discussions in Peiping, Chinese Communists forces probably will cross the Yangtze within the next six weeks. Whether this advance is in the name of a newly-established "coalition" government or a resumption of the shooting war, the majority of Nationalists still possessing military forces can be expected to fall back and continue regional resistance (p. 3). Possibly indicative of this trend is the recent report that Central China commander PAI Chung-hai is planning to pull back from his position at Hankow (p. 4).

Despite the Burmese Government's optimistic announcement, the expected "surrender" of insurgent Karen forces did not materialize (p. 7).

Dutch and Republican officials in West Java are competing for control over units of the crack Siliwangi Division near Bandoeng (p. 7).

The Nacionalista Party, already holding the balance of power in the Philippine Senate, is expected to extend its control to the House (p. 8).

---

The marginal notations used in succeeding sections of this Weekly ("A", "B" or "C") indicate the importance of the items in B/FE opinion with "A" representing the most important.

~~SECRET~~

~~SECRET~~

-2-

## SECTION II. DEVELOPMENTS IN SPECIFIED AREAS

### GENERAL

ECAFE establishes Committee on Industry and Trade-- The Economic Commission "B" for Asia and the Far East (ECAFE) interim meeting which adjourned at Bangkok on 5 April, although marked by less political acrimony than prevailed in previous sessions, still took actions only preparatory to real economic achievement. The Committee requested the Secretariat to make several new studies, among them trade with Japan and the dollar shortage in the ECAFE region. The most important action, however, was the establishment, by an 11 to 1 vote with the USSR dissenting, of a Committee on Industry and Trade. The new committee will meet annually in the spring and again just before the full ECAFE sessions each fall. Initiative leading to this action was taken by the Indian delegate, while the US delegation did effective work in reconciling differences between the original Indian draft and a UK counter-draft. The US delegation reports that establishment of this Committee has the positive virtue of providing a permanent body capable of examining the economic aspects of ECAFE's work more or less free from political issues.

Ambassador Stanton, the US delegate, reports that he considers the most positive value of the session to the US was the goodwill engendered among Indian and other Asiatic delegations by US support of their strong desires to establish the Committee on Industry and Trade and our assistance in reconciling conflicting views, in sharp contrast to USSR obstructive tactics which were resented by Asiatic members.

Before the Bangkok session began there had been some indication that implementation of Point IV would be a primary topic for discussion. The other delegations acquiesced, however, to the US desire to hold off any ECAFE resolutions on Point IV until ECOSOC acts upon it following submission of the Secretary General's study and report, at its July meeting.

Japan-Korea Trade Agreement-- An agreement which contemplates a total "B" exchange of \$78 million worth of goods in the next twelve months between the Republic of Korea and Japan has been concluded by SCAP, ECA and Korean representatives. Japan, under this plan, will receive some \$29 million worth of Korean products, almost half the total value being in rice. The rest will be made up of other foodstuffs; raw materials such as tungsten concentrate, graphite, fluorite, anthracite dust and other minerals, and semi-finished steel and scrap. Korea will receive in return some \$49 million in such Japanese industrial products as textiles, mining, transport and communications equipment and parts, machinery and metal products, cement, chemicals, and drugs.

-8-

Since the Korean Republic's economy is competitive with that of other non-industrial Far Eastern countries, its natural trade orientation is necessarily towards industrial Japan, despite strong Korean fears of a return to the pre-liberation conditions of Japanese economic domination. Japan, in turn, has a critical need of Korean rice imports. If, as seems probable, Korea has no exportable rice surplus in the coming twelve months, Japan nevertheless will have use for the dollars received for exports to Korea in order to purchase imports elsewhere.

Simultaneous with the announcement of the SCAP-ECA trade agreement, the Korean Government has ordered suspension of all barter trade with its puppet neighbor to the north, on the grounds that northern Korean traders acted as espionage agents for their Soviet-supported regime. US Occupation officials in southern Korea generally have favored barter trade with the north in the past on the grounds that even the small quantities of critical materials so received have benefited the Republic's economy sufficiently to overshadow other considerations. It appears that the Korean Government now believes such critical items can be procured elsewhere with ECA-supplied funds.

Members of the UN Commission on Korea (UNCOK), in contrast, have advocated increased barter with northern Korea as a step towards removal of economic barriers now existing along the 38th Parallel, thus implementing the UN mission of promoting Korean national solidarity. The Government's action in ending barter may, therefore, reinforce the opinion of some UNCOK members that President Rhee is not sincere in his stated desire to assist them in solving the problem of unification.

#### KOREA

North Korean underground-- Independent underground organizations, having "C" only limited arms and neither central direction nor lateral liaison, are reported to exist in urban areas of northern Korea. In the larger cities, group commanders have been appointed, recognition signs learned and weapons cached. The actual percentage of northern Koreans enrolled in these shadowy organizations is unknown, however. Past reports have indicated that the potential opposition to the puppet regime in northern Korea includes military personnel, farmers, laborers, students, policemen and civilians, but this is the first report to indicate that any organization of dissidents is actually under way north of 38.

#### CHINA

Status of peace negotiations-- While Nationalist-Communist conversations "A" preliminary to "formal" peace negotiations continue in Peiping, it appears unlikely that the Nanking Government will agree to Communist demands for virtual surrender despite current Communist propaganda threats, military

~~SECRET~~

-4-

movements, and the informal "ultimatum" sent to Acting President LI Tsung-jen. Although LI has assiduously sought a peace settlement, he has repeatedly indicated his unwillingness to accept terms tantamount to liquidation of remaining Nationalist power. In partial reply to the Communist pressure, LI has sent MAO Tse-tung a dramatic appeal, citing the popular demand for peace in all China and offering to surrender himself for punishment as a "war criminal."

While attempting to saddle the Communists with responsibility for the probable break-down of negotiations, LI's regime meanwhile will offer various counter-proposals, seek concessions, and try to prolong the discussions as long as possible. There has been a definite trend on the part of many Nationalist leaders toward a resigned acceptance of the idea of Communist domination; hence a dangerous drift toward CCP/USSR orientation. Despite this trend, if the LI-HO regime concludes an overall surrender agreement with the Chinese Communists, the commitments probably will be repudiated by a majority of Nationalist leaders, who will attempt continued resistance from the South and claim that the "recognized" government still functions from Canton.

Meanwhile the Chinese Communists are likely to demand that the Nanking Government: (1) accept full responsibility for the civil war; (2) repudiate CHIANG Kai-shek and all treaties with the US; (3) transfer to a Communist-controlled "coalition" all of its authority as a "National Government," together with title to all assets; and (4) formally transfer all Nationalist armies to the "coalition" for subsequent "reorganization."

LI's government can comply with all of the above demands simply by signing an "agreement." Such an "agreement" could not keep the Generalissimo from reclaiming his position as "President of the Republic," destroy remaining anti-Communist forces, or deliver Nationalist armies to the "coalition." But it would greatly weaken the Generalissimo's claim; it would confirm as "criminals" those refusing to surrender Government assets and it would make outlaws of those armies refusing to be "reorganized." Thus all of these forces would become in effect the object of a Communist-led "bandit suppression" campaign.

If the Nanking government signs such an agreement, its leaders will be removed from the "war criminal" list and accepted into the "coalition." If those leaders refuse to sign--and they will not be allowed much more time--the Chinese Communists will resume the offensive. Whether in the name of the "coalition" or the Chinese Communist Party alone, Communist armies probably will cross the Yangtze within the next six weeks.

Hankow evacuation plans-- As superior Communist forces continue their southern push along the Pinghan railroad toward Hankow, the Central China commander PAI Chung-hsi appears to be readying his forces for a hasty evacuation of that important central Yangtze port area. The American Mission school in Uuchang--across the river from Hankow--has been asked by PAI's headquarters to vacate their buildings by

"A"

~~SECRET~~

-5-

16 April to allow use of the premises as the advance headquarters for the Central China Command. Indications are that PAI's main headquarters probably will be moved south to Changsha as the first phase in withdrawal to his home province of Kwangsi. Almost all of PAI's heavy equipment has long since been moved south. The timing for the withdrawal of his troops is dependant upon the rapidity of Red troop movements toward Hankow. PAI will probably offer only token resistance in the Hankow sector, thereby conserving his troops for possible inclusion in a southern bloc or an autonomous Kwangsi regime.

Communists infiltration of Taiwan-- Increased Communist activity in Taiwan is apparent and Taiwanese dissatisfaction with Nationalist Chinese rule continues to mount. The Chinese Communist radio recently announced the presence of a Taiwanese woman Communist in North China, a Hong Kong Communist group has announced its program for Taiwan, and the distribution of Communist propaganda on the island has been greatly increased. The Communists may also have been active in the recent student demonstration in Taipei which led to the detention of some twenty students and to the closing of the university. The arrival of additional mainland troops may provide the means for further Communist infiltration. Meanwhile, soaring prices, growing economic instability and Chinese corruption, especially as evidenced by recent private transactions in US military equipment, are fanning the flames of Taiwanese resentment against Chinese rule and increasing the possibility of an uprising.

"B"

Soviet Policy in Manchuria-- Scanty reports coming out of Manchuria indicate that although USSR covert influence there is powerful, the Soviet is operating through the Chinese Communists, and is being careful to avoid either jeopardizing the USSR's strong legal rights in Manchuria or offending Chinese Communist nationalist sensibilities. There are apparently no Soviet troops in Manchuria outside the Kwantung Peninsula, with the possible exception of detachments reported to be engaged in training Chinese Communist forces in Harbin and Chiamassu. There are a number of Soviet railway guards and advisers employed in connection with the Chinese Changchun Railway--established by the August 1945 Sino-Soviet Agreement and consisting of the former Chinese Eastern and South Manchuria railways. The USSR, however, is not participating in the administration of the Railway, which, under the Agreement, was to have been operated jointly by the USSR and the Republic of China. For the sake of observing its legal railway obligations to the letter, the USSR will probably not join in the railway administration until such time as the Chinese Communist regime is recognized as the Government of China, following which the USSR will be in a strong legal position to consolidate its gains in Manchuria, an area that the USSR regards as strategically necessary in a future struggle with the West.

"B"

~~SECRET~~

~~SECRET~~

-6-

and an essential link in a chain of buffer states along the Siberian land frontier.

The Chinese Communists have thus far not opposed Soviet expansionist designs on Manchuria. On the contrary, North Shensi radio has broadcast a major policy statement, amounting to increased emphasis on a satellite foreign policy. The broadcast reaffirmed Chinese Communist loyalty to the USSR and endorsed, for the first time, the Sino-Soviet Treaty of 1945, and characterized Soviet occupation of Dairen and Port Arthur as "severe blows to imperialist aggression in the Far East and far-reaching guarantees of the interests of the Chinese people against aggression."

NEWS NOTES

Nationalist Inflation-- Perhaps the last spiral in the inflation of the gold yuan began this week with the Shanghai market's unfavorable reaction to the dumping of 60,000 ounces of gold by the Central Bank on April 4. The 100% spurt in prices touched off by the Central Bank's supposedly deflationary action is apparently a sign that the gold yuan will shortly be repudiated by the Chinese people and that the Nanking Government will have lost its last source of income, the printing press. The Government's April budget called for nearly one trillion gold yuan, to be obtained largely by increased note issue. If deprived of this income to support its civil and military functions, the Government's last figments of authority will be seriously threatened, as will its position at the Peiping peace table.

Communist Trade-- While there is a definite trend towards revival of trade with Communist-held North China, the quantity of this trade handled at Tientsin during March was extremely small. From 19 February to 25 March, only seven or eight small foreign ships unloaded cargos at Tientsin. The newly-opened Tientsin Customs Administration reported that Hong Kong cargos, the majority, totaled US \$18,000 in value. This amount is only a fraction of pre-Communist Tientsin imports which exceeded US \$500,000 monthly in early 1948.

Land Reform-- One of the few attempts at land reform in North China areas of recent Communist occupation was announced recently for the Tientsin vicinity. The pertinent provisions of the reform are that: public land shall continue to be rented; "landlords" will receive farms "generally equal" to others, but in a number of cases may retain their holdings; "wealthy middle class farmers" and poorer people who till their own land "shall have protection"; no land farmed by machines shall be confiscated; and land will be confiscated by and become the property of the Tientsin People's Government alone. This

~~SECRET~~

-7-

cautious program at most provides for state expropriation and control of small amounts of land. The government will not redistribute land but instead will rent to "unemployed and poor tenant farmers." The purpose of Tientsin land reform is not to erase the inequalities of feudalism or to fulfil the promises of SUN Yat-sen, but to "protect and develop agricultural production, in view of the arrival of spring cultivation," according to the Communist announcement.

BURMA

Karen-Burman fighting renewed--The Karen "surrender", as announced by the Burmese Government, failed to materialize after two days of negotiations and military operations have been resumed against the Karen forces at Insein, 10 miles north of Rangoon. This action was taken after the Karens ignored stringent Government peace terms, evidently designed to give the impression that the Karens were repentant and humble. "A"

Temporary Karen participation in negotiations with the Government, however, was primarily motivated by the Commonwealth ambassadors' endorsement of Thakin Nu's peace-talk invitation. Since the Government had taken the initiative in arranging peace discussions, the Karens expected to win considerable concessions, particularly in the matter of a separate Karen state. The Government, largely at the insistence of Supreme Commander Ne Win, demanded instead that the Karens surrender their arms and personnel and that Karen army mutineers be treated as any other mutineers. Such terms amounted to unconditional surrender and were obviously unacceptable to the Karens who were willing to continue the struggle. Finally, when Karen counter-proposals--including a Burma-wide truce between Karen and Government forces--were rejected by the Government, the Karens apparently felt that further negotiations were useless. Although new efforts may be made to mediate the Karen-Burman conflict and it appears that Thakin Nu may have been and possibly still is willing to explore the possibilities of a peaceful settlement further, no simple or lasting solution is to be expected in the near future. The Karens in all likelihood will continue their struggle until they obtain an autonomous state and are permitted to retain the arms with which to defend themselves, or until they suffer severe military reverses.

INDONESIA

Dutch vie for Republican troop control--A contest for control of the Republic's crack Siliwangi Division is currently taking place between Dutch and Republican officials in West Java. In February, the Dutch Army suggested to the Dutch-controlled Pasundan (West Java) Government that "B"

~~SECRET~~

-8-

INDONESIA (continued)

they ask the Siliwangi Division's aid in restoring order in the area by neutralizing the fanatical Moslem and pro-Communist armed bands that were terrorizing the populace and destroying important installations. The Pasundan Government forwarded the Dutch suggestion. There presently appears to be a difference of opinion among the 14 Siliwangi battalions of the Division in the vicinity of Bandeeng. The Dutch have recently claimed that five of the battalions have come over to their side. It appears now, however, that only two of the Siliwangi battalions have actually turned themselves over to the Dutch, while the loyalty of the other three still wavers. Republican leaders who have been consulted are opposed to the idea of cooperation with the Dutch at the present time and recommend that extremist groups be eliminated after a settlement with the Dutch is reached. Inasmuch as the Pasundan Government is pro-Republican in sentiment and the son of its highest official is an influential officer in the Siliwangi Division, it is believed that only a small portion of Siliwangi troops will accept the Dutch offer. If the Dutch Army carries out its threat to attack Siliwangi units at this point, the majority of Siliwangi battalions, still loyal to the Republic, are capable of carrying out prolonged and intensified guerrilla warfare.

PHILIPPINES

Nacionalistas play both ends--Contrary to Party policy in the Senate, "B Nacionalista Party members in the House of Representatives may lend their strength to the Avelino faction of the Liberal Party. Such an action would imperil President Quirino's position and give the Nacionalistas the same important bargaining position in the House which they now hold in the Senate, where Quirino's control is completely dependent upon their temporary support. (See B/FE Weekly #46). In the House, although Quirinistas have greater strength than the pro-Avelino Liberals, they cannot defeat a possible combination of Avelinistas and Nacionalistas.

On 5 April, three Nacionalistas and four pro-Avelino Liberals filed a resolution in the House to impeach President Quirino on charges of extravagance, misappropriation of funds, and abuse of power in abetting graft and corruption. Quirino himself asked for immediate action on the resolution. Some political observers believe that this move is part of a Nacionalista plan to wreck the Liberal Party, the first phase having been the Senate's discrediting of Avelino and the second to be the House's undermining of the Quirino faction. It is expected that Quirino's impeachment will be defeated but his prestige will decline as the charges of corruption and dishonesty are publicized throughout the Philippines. The Nacionalistas can be expected to take full advantage of Liberal Party dissension to improve their brightening prospects for victory in the fall elections.